

TESTIMONY
Presented to the
Subcommittee on General Farm Commodities and Risk Management
Committee on Agriculture
U.S. House of Representatives
by
Eddie Smith
Chairman, National Cotton Council
June 24, 2010

Mr. Chairman, thank you for holding this important hearing to review U.S. farm policy in preparation for the 2012 farm bill. My name is Eddie Smith. I own and operate a cotton, cattle and grain operation near Floydada, Texas, in a partnership with my father and son. I also am currently serving as Chairman of the National Cotton Council.

The National Cotton Council is the central organization of the United States cotton industry. Members include producers, ginner, cottonseed handlers, merchants, cooperatives, warehousemen and textile manufacturers. Cotton is a cornerstone of the rural economy in the 17 cotton-producing states stretching from the Carolinas to California. The scope and economic impact extends well beyond the approximately 19,000 farmers that plant between 9 and 12 million acres of cotton each year. Taking into account diversified cropping patterns, cotton farmers cultivate more than 30 million acres of land each year.

Processors and distributors of cotton fiber and downstream manufacturers of cotton apparel and home-furnishings are located in virtually every state. Nationally, farms and businesses directly involved in the production, distribution and processing of cotton employ almost 200 thousand workers and produce direct business revenue of more than \$27 billion. Accounting for the ripple effect of cotton through the broader economy, direct and indirect employment surpasses 420 thousand workers with economic activity well in excess of \$100 billion.¹

Cotton's Economic Impact

	Cotton Sector		Broader Economy	
	Jobs	Direct Revenue (Million \$)	Jobs	Economic Activity (Million \$)
Southeast (AL, FL, GA, NC, SC, VA)	77,733	\$10,647	173,454	\$47,502
Mid-south (AR, LA, MO, MS, TN)	31,434	\$6,090	70,143	\$27,172
Southwest (KS, OK, TX)	41,569	\$5,715	92,758	\$25,497
West (AZ, CA, NM)	24,028	\$2,318	53,616	\$10,343
United States	191,405	\$27,622	427,102	\$123,241

¹ Direct employment and revenue based on 2007 Census of Agriculture and 2002 Economic Census. Indirect employment and economic activity derived from input-output multipliers reported by University of Tennessee's Agri-Industry Modeling and Analysis Group.

Sound and stable farm policy is essential for the viability of the U.S. cotton industry. The National Cotton Council believes that effective farm policy should adhere to several principals:

- 1) It should be market-oriented with a goal of promoting quality, efficiency and domestic competition;
- 2) It should allow for full production to meet market demand;
- 3) It should provide for an effective financial safety net;
- 4) It should ensure the availability of competitively-priced U.S. cotton to domestic and international textile mills; and
- 5) It should encourage maximum participation without regard to farm size or structure.

We believe the 2008 farm bill meets most of these principles and has worked well for the cotton industry. We commend this sub-committee and the broader committee as a whole for the diligent work crafting the 2008 legislation.

The centerpiece of the upland cotton program and traditional commodity programs has been an effective marketing loan program. It provides a safety net for producers but does not harm the competitiveness of U.S. commodities. It is a program component that makes sense, that works, and that serves many critical purposes. Because it is well-understood and a fundamental part of commodity policy, the marketing loan gives rural banks the confidence they need to make critical operating loans available. This foundational program has also been the lever to move other important reforms, such as standardized bales and bale packaging for cotton, electronic warehouse receipts, and heightened standards for storage and elevator facilities for cotton and for other commodities.

With respect to cotton, while the 2008 farm bill maintained the marketing loan and several other program components from prior law, the bill also made many reforms, such as a revision in the calculation of cotton premiums and discounts, placing a ceiling on the payment of storage credits for cotton under loan, and an economic adjustment program for the U.S. textile industry. The bill also reduced the target price for cotton.

Fundamentally, we continue to support the 2008 farm bill's approach to the cotton program and all of its components, from the marketing loan to direct and counter-cyclical payments. Each component serves a distinct purpose that is beneficial to U.S. farmers and the industry, as a whole.

The 2012 farm bill debate, however, will take place with several new and increased points of pressure. Record budget deficits will put intense pressure on funding. The WTO Brazil Case puts cotton's marketing loan and counter-cyclical programs under special scrutiny even though the cotton program, as revised by the 2008 bill, has never been evaluated by a WTO Panel. Ongoing negotiations in the Doha Round of trade negotiations could result in a dramatically altered landscape for domestic commodity support. If circumstances arise that make it impossible to maintain a reasonable safety net using existing delivery mechanisms, the cotton industry will look at alternatives.

As evidenced by recent sign-ups, the ACRE program has not been an attractive alternative for cotton farmers. The support mechanisms within ACRE do not provide an adequate safety net for cotton farmers when compared to the traditional DCP program. If a revenue-based program is to find support among cotton producers, a more reasonable revenue target must be established. Mr. Chairman, we are working as an industry to evaluate fully our industry's concerns with ACRE in order to develop recommendations for effective modifications.

Even as our industry commits to an in-depth review of the structure of the cotton program, I must emphasize our commitment to the principles I outlined earlier in my statement. One of those principles is that effective farm policy must maximize participation without regard to farm size or income. The 2008 farm bill contained significant changes with respect to payment limitations and payment eligibility. In general, the limitations were made more restrictive, and the adjusted gross income test was substantially tightened.

In addition to the legislative changes, we believe that USDA over-stepped the intent of Congress in key payment eligibility provisions and issued regulations that are overly complicated and restrictive. Sound farm policy provisions are of little value if commercial-size farming operations are ineligible for benefits. While we oppose any artificial payment limitations, we advocate administering the current provisions within the intent of Congress and strongly oppose any further restrictions.

Conservation programs were strengthened in the 2008 farm bill. The Conservation Stewardship Program and similar conservation programs can lead to improved environmental and conservation practices but should not serve as the primary delivery mechanism for farm program support. The Conservation Stewardship Program has also been hampered by overly restrictive payment limitations contrived by USDA regulators - restrictions that we do not believe are supported by the statute. USDA's unilateral decision to exclude commercial-size farming operations dramatically limits the environmental and conservation benefits that are possible with this program.

We support a permanent natural disaster program as part of the farm bill, but our experience with the SURE program indicates that it cannot provide an effective level of natural disaster assistance. We recognize the challenge facing Congress to make improvements in this program. Without increased baseline spending authority, there will be no funds to even continue the program in the next farm bill, much less make the necessary improvements for it to be an effective disaster relief mechanism. However, we do not support reallocating existing spending authority from current farm programs to apply to SURE.

Crop insurance is an essential risk management tool for cotton producers. Our industry continues to examine concepts that improve the various cotton crop insurance products. Revenue coverage, enterprise policy rates and group risk products are examples of improved products that can provide a menu of risk options for growers. However, we continue to view the current insurance products as complements to traditional commodity programs but do not consider those programs as a replacement system for delivering farm program support.

Continuation of an adequately funded export promotion program, including the Market Access Program (MAP) and Foreign Market Development (FMD) Program, are important in an export-dependent agricultural economy. Individual farmers and exporters do not have the necessary resources to operate effective promotion programs which maintain and expand markets – but the public-private partnerships facilitated by the MAP and FMD programs, using a cost-share approach, have proven highly effective and have the added advantage of being WTO-compliant.

Pima cotton producers support continuation of a loan program with a competitiveness provision to ensure U.S. extra-long staple cotton, also known as Pima cotton, remains competitive in international markets. The balance between the upland and pima programs is important to ensure that acreage is planted in response to market signals and not program benefits.

While the cotton industry supports a viable bio-fuels industry, it must be recognized that benefits are not equally shared by all commodity producers. Renewable fuels mandates and other policies regarding bio-fuels have changed the competitive balance between commodities, placing severe pressure on cotton infrastructure in certain parts of the Cotton Belt. Mandated demand can result in excessive and harmful market distortions. The support given to bio-fuel crops must be taken into consideration when comparing relative levels of support across commodities, when evaluating payment limitations and before trying to mandate a one-size-fits-all farm program for bio-fuel and non-bio-fuel commodities.

In summary, our industry believes the cotton provisions of the 2008 farm bill are working well. If policy changes are inevitable as part of the 2012 farm bill, the cotton industry remains ready to work with the Agriculture Committees to explore alternative programs that can provide the needed safety net to our industry in a manner that is consistent with our international trade obligations and within budget constraints.

Thank you for the opportunity to present these comments. I look forward to answering questions at the appropriate time.

APPENDIX

COTTON ECONOMIC UPDATE

National Cotton Council

June 2010

The 2010 economic outlook for the U.S. cotton industry can be described as one of recovery. While the lingering effects of the economic downturn continue to present challenges for the U.S. cotton industry, data suggest that the worst of the storm has been weathered.

After the downturn in the 2008 marketing year, an improved outlook for the general economy is supporting the recovery in mill use. Yarn values improved in the latter half of calendar 2009, and the textile trade is expanding. For the 2009 marketing year, world mill use is estimated at 116.4 million bales, 5.9% higher than 2008. For the 2010 marketing year, world mill use is projected to grow by 2.6%, reaching 119.5 million bales.

In the United States, the slowdown in the general economy compounded the pressure the textile industry has been facing due to imported textile and apparel products. Mill use in the 2008 marketing year fell to 3.6 million bales, down 1.0 million bales from 2007. While the climate has improved and current monthly numbers are exceeding year-ago values, it is likely that marketing year totals will be slightly lower than those observed in 2008. For marketing years 2009 and 2010, U.S. mill use is estimated at 3.4 and 3.3 million bales, respectively.

China's textile industry was not immune to the global economic downturn, falling 7.0 million bales in the 2008 marketing year. However, prospects have improved for the 2009 marketing year with mill use estimated at 47.5 million bales. Government policies and incentives under the textile stimulus plan supported their textile industry during the worst of the downturn. Recently, export markets have improved, as have the prospects for 2010 mill use. Currently, USDA projects China's mill use in the 2010 marketing year to reach 49.0 million bales.

For the 2009 marketing year, India's mill use is expected to grow to 19.5 million bales, as compared to 17.9 million bales the year earlier. For the 2010 marketing year, India is projected to process 20.4 million bales, or 17% of the world total.

USDA's March *Prospective Plantings* report puts U.S. cotton acreage at 10.5 million acres, an increase of 14.8% from 2009. With cotton prices trading 20 to 25 cents above year-ago levels and corn and soybean prices essentially unchanged from last year, all regions are expected to increase cotton acres. Based on average abandonment and yields adjusted for favorable moisture conditions, USDA forecasts a 2010 crop of 16.7 million bales, compared to 12.2 million in 2009.

In China, seed cotton prices 50% higher than year-ago levels will attract more cotton acres in 2010. However, the expansion could be less than originally expected as increased government support will keep some acres in grains. Cotton area is expected to increase by approximately 2% above the 2009 level. Assuming trend yields, China's cotton production is estimated at 33.0 million bales, 500 thousand bales above 2009.

Dramatic improvements in yields, coupled with expanded area, have allowed India to more than double cotton production in recent years. In 2009, India devoted more than 25 million acres to cotton and harvested a crop of 23.5 million bales. A stronger market and the certainty of the higher support prices contributed to the increased area. For 2010, cotton is again expected to compete for available land, but concerns about food security will limit further expansion in

cotton area. With area projected just 0.4% higher, an expected rebound in 2010 cotton yields is the primary factor behind the projected production of 25.0 million bales.

With reduced area and lower yields, world cotton production for the 2009 marketing year fell to 102.9 million bales, representing the smallest crop since 2003. For the 2010 marketing year, the combined results of the regional and country-level projections generate a world crop of 114.3 million bales. While an 11-million bale rebound in production is substantial, the expected crop falls short of mill use at 119.5 million bales.

After falling sharply in the 2008 marketing year, world cotton trade for the 2009 season is increasing to 35.3 million bales. The U.S. remains the largest exporter with 12.3 million bales for the 2009 marketing year. Both world trade and U.S. exports are projected to increase in the 2010 marketing year. With world trade at 36.1 million bales and U.S. exports at 13.5 million bales, the U.S. trade share increases to 37%.

China remains the largest cotton importer with 10.8 million bales of imports in the 2009 marketing year. Given the projections for mill use and production, China's cotton imports are estimated at 11.5 million bales for the 2010 marketing year. Imports by Bangladesh, Indonesia and Vietnam are projected to increase as mill use expands.

Approaching the conclusion of the 2009 marketing year, it is increasingly clear that global cotton stocks will see their first substantial decline since the 2002 marketing year. The estimated decline of 10.5 million bales will be the largest single-year drawdown since 1986. Mill use of 116.4 million bales and ending stocks of 52.2 million bales results in a stocks-to-use ratio of 44.8%. Globally, 2010 stocks are expected to decline by 2.6 million bales, bringing the stocks-to-use ratio down to 41.5%.

In the U.S., ending stocks are projected to fall to 2.9 million bales by the end of the 2009 marketing year. This would be the lowest stocks since the 1995 marketing year and represents a dramatic change from the 10 million bales of stocks of just 2 years earlier. For the 2010 marketing year, U.S. stocks are projected to decline to 2.8 million bales as the combination of 3.3 million bales of mill use and 13.5 million bales of exports slightly exceed the projected crop of 16.7 million bales.

Cotton prices gained momentum in the latter half of 2009 as the balance sheet tightened due to reduced expectations for 2009 production. Prices also found support in an improved general economy and a weaker U.S. dollar. For 2010, cotton's balance sheet remains supportive of prices as world production is projected to fall short of consumption. However, the outlook is not without risks and uncertainties, particularly given the fragile nature of the macroeconomic recovery.

Table 1 – Prospective 2010 Cotton Area

	2009 USDA Actual	2010 USDA Intentions	Percent Change
(Thousand Acres)			
SOUTHEAST	1,891	2,390	26.4%
Alabama	255	360	41.2%
Florida	82	90	9.8%
Georgia	1,000	1,150	15.0%
North Carolina	375	540	44.0%
South Carolina	115	175	52.2%
Virginia	64	75	17.2%
MID-SOUTH	1,627	1,730	6.3%
Arkansas	520	520	0.0%
Louisiana	230	200	-13.0%
Mississippi	305	340	11.5%
Missouri	272	290	6.6%
Tennessee	300	380	26.7%
SOUTHWEST	5,243	5,875	12.1%
Kansas	38	35	-7.9%
Oklahoma	205	240	17.1%
Texas	5,000	5,600	12.0%
WEST	247	320	29.5%
Arizona	145	185	27.6%
California	71	100	40.8%
New Mexico	31	35	12.5%
TOTAL UPLAND	9,008	10,315	14.5%
TOTAL ELS	141	190	34.4%
Arizona	2	3	87.5%
California	119	165	38.7%
New Mexico	3	4	42.9%
Texas	18	18	0.0%
ALL COTTON	9,150	10,505	14.8%

Table 2 – Balance Sheet for Selected Countries & Regions*

	09/10	10/11
	(Million Bales)	
World		
Production	102.89	114.32
Mill Use	116.43	119.49
Trade	35.26	36.14
Ending Stocks	52.21	49.59
United States		
Production	12.19	16.70
Mill Use	3.40	3.30
Net Exports	12.25	13.50
Ending Stocks	2.90	2.80
Mexico		
Production	0.42	0.64
Mill Use	1.90	1.90
Net Exports	-1.38	-1.30
Ending Stocks	0.64	0.65
Brazil		
Production	5.75	6.80
Mill Use	4.40	4.60
Net Exports	1.80	1.90
Ending Stocks	4.69	5.14
Turkey		
Production	1.75	2.10
Mill Use	5.60	5.50
Net Exports	-3.73	-2.85
Ending Stocks	1.61	1.14
West Africa		
Production	2.16	2.61
Mill Use	0.18	0.18
Net Exports	2.17	2.42
Ending Stocks	0.51	0.51
Uzbekistan		
Production	4.00	4.60
Mill Use	1.10	1.15
Net Exports	3.80	3.60
Ending Stocks	1.05	0.90

	09/10	10/11
	(Million Bales)	
China **		
Production	32.50	33.00
Mill Use	47.50	49.00
Net Exports	-10.78	-11.48
Ending Stocks	20.64	18.62
India		
Production	23.50	25.00
Mill Use	19.50	20.40
Net Exports	5.80	5.18
Ending Stocks	8.12	7.55
Pakistan		
Production	9.90	10.50
Mill Use	11.50	11.70
Net Exports	-0.95	-1.20
Ending Stocks	4.01	3.99
Indonesia		
Production	0.03	0.03
Mill Use	2.05	2.10
Net Exports	-2.09	-2.18
Ending Stocks	0.36	0.42
Vietnam		
Production	0.02	0.02
Mill Use	1.60	1.80
Net Exports	-1.70	-1.78
Ending Stocks	0.36	0.35
Bangladesh		
Production	0.05	0.05
Mill Use	4.00	4.25
Net Exports	-4.00	-4.25
Ending Stocks	0.74	0.78
Australia		
Production	1.60	2.20
Mill Use	0.04	0.04
Net Exports	1.83	1.85
Ending Stocks	0.74	1.12

* Source: USDA June 2010 World Agricultural Supply & Demand Estimates

** Balance sheet assumes Unaccounted of -2.5 million bales in 09/10 and 10/11.

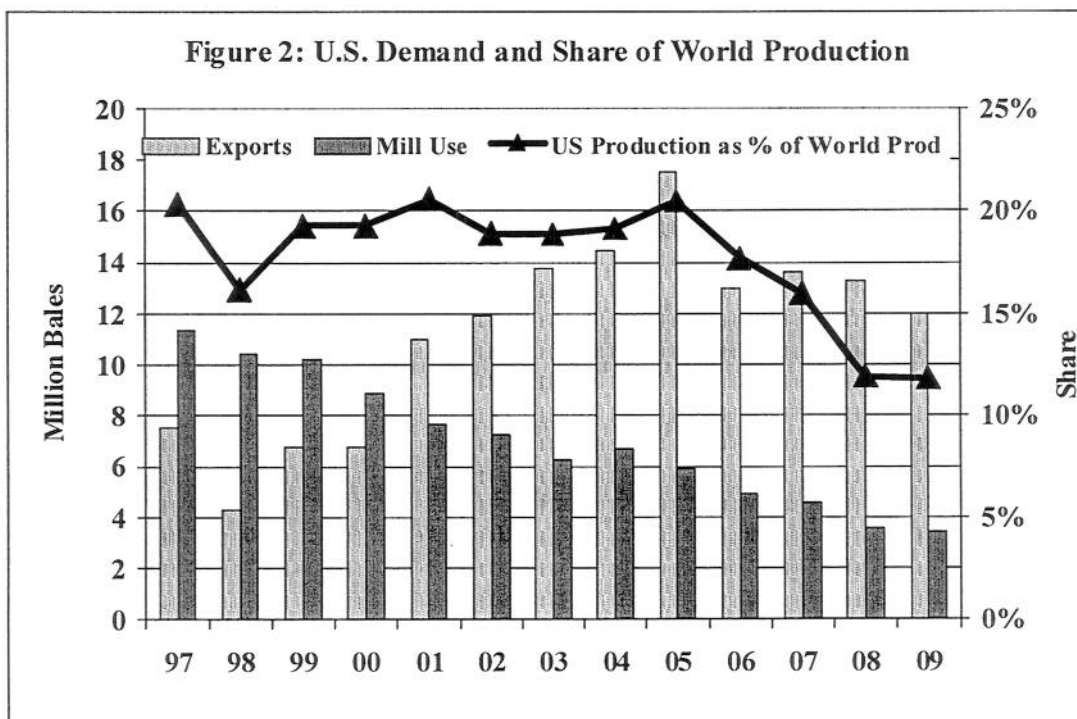
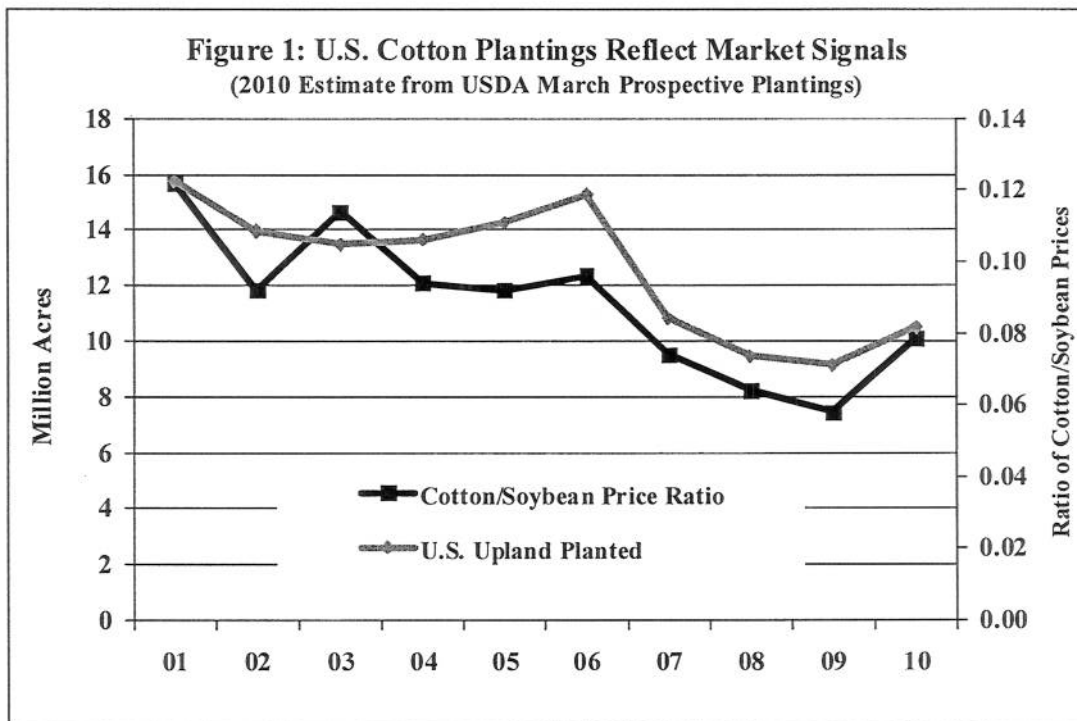


Figure 3: Change in Cotton Production from '05 Level

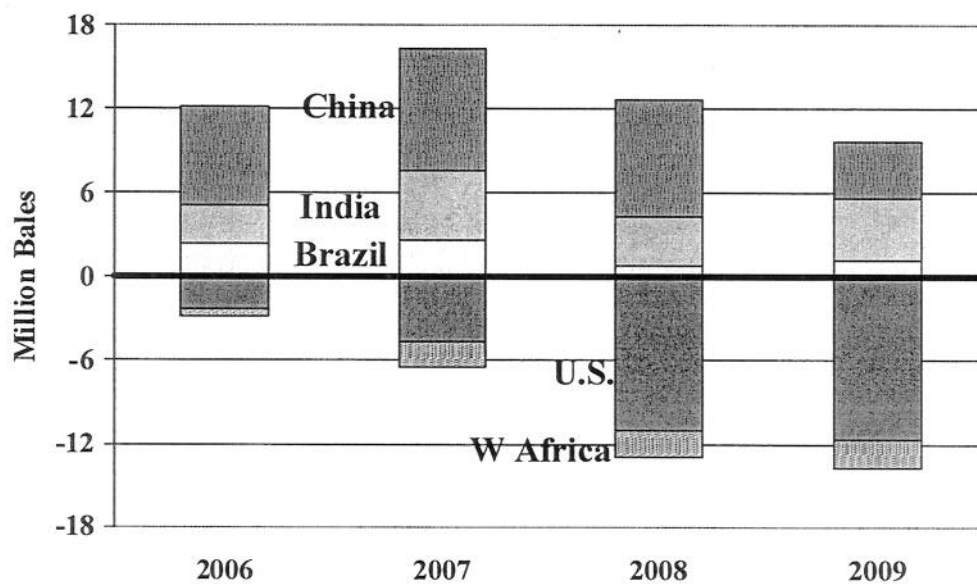
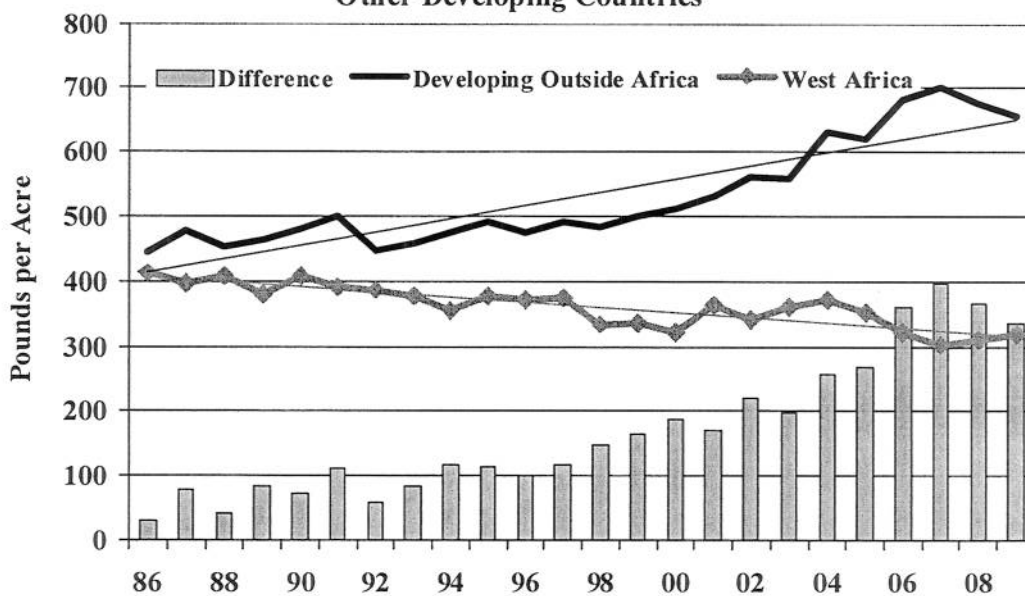


Figure 4: Yields in West Africa Losing Ground to Other Developing Countries



Committee on Agriculture
U.S. House of Representatives
Required Witness Disclosure Form

House Rules* require nongovernmental witnesses to disclose the amount and source of Federal grants received since October 1, 2007.

Name: Eddie Smith
Address: 2831 US Highway 62, Floydada, TX 79235
Telephone: 806-483-3335
Organization you represent (if any): National Cotton Council

1. Please list any federal grants or contracts (including subgrants and subcontracts) you have received since October 1, 2007, as well as the source and the amount of each grant or contract. House Rules do NOT require disclosure of federal payments to individuals, such as Social Security or Medicare benefits, farm program payments, or assistance to agricultural producers:

Source: _____ Amount: _____

Source: _____ Amount: _____

2. If you are appearing on behalf of an organization, please list any federal grants or contracts (including subgrants and subcontracts) the organization has received since October 1, 2007, as well as the source and the amount of each grant or contract:

Source: _____ Amount: _____

Source: _____ Amount: 

Please check here if this form is NOT applicable to you: _____

Signature: Eddie Smith

* Rule XI, clause 2(g)(4) of the U.S. House of Representatives provides: *Each committee shall, to the greatest extent practicable, require witnesses who appear before it to submit in advance written statements of proposed testimony and to limit their initial presentations to the committee to brief summaries thereof. In the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include a curriculum vitae and a disclosure of the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by the witness or by any entity represented by the witness.*

PLEASE ATTACH DISCLOSURE FORM TO EACH COPY OF TESTIMONY.

INTRODUCTION
Eddie Smith
Cotton Producer, Floydada, Texas, and
Chairman, National Cotton Council of America (2010)

Eddie Smith was elected chairman of the National Cotton Council at the Council's 2010 Annual Meeting in February. Prior to that, he served as the Council's vice chairman and on numerous Council committees including its Environmental Task Force, and also completed the Council's Cotton Leadership Program in 1991.

Smith began farming full-time following graduation from Texas Tech University in 1973 with a bachelor's degree in agricultural economics. Today, he maintains a cotton, cattle and grain operation near Floydada, TX, in partnership with his father, Ed, and son, Eric. He has served as a director of Floydada Cooperative Gin and was elected to the board of directors of Plains Cotton Cooperative Association (PCCA) in 1984. He was unanimously elected chairman of PCCA in 2004.

In addition, Smith is a past chairman and long-time director of Cotton Incorporated, and also has served as that organization's treasurer, secretary and vice chairman. He also was a member of the Blue Ribbon Farm Bill Committee of the National Council of Farmer Cooperatives and served as vice chairman of its Trade Working Group. He also is a director of the Texas Agricultural Cooperative Council.

Smith is a deacon at the Floydada Baptist Church. He and his wife, JenniSu, have one son, Eric, daughter-in-law, Leigh, and two grandsons, Ethan and Logan.